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C O N F I D E N T I A L SECTION 01 OF 03 SOFIA 000017

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SUBJECT: ONE YEAR IN, BULGARIA FINDS EU MEMBERSHIP BRINGS
NO QUICK FIXES

Classified By: Charge Alex Karagiannis for reasons 1.4 (b) and (d).

¶1. (C) Summary: Bulgaria welcomed January 1, 2007 with more than just fireworks -- it joined the EU with high expectations and hopes for rapid change. One year later, Bulgarians still overwhelmingly support the EU, but with a collective sigh (or shrug) about membership benefits. Bulgarians were grateful for the EU's role in the release of the Bulgarian nurses from Libya in July. But, apart from the EU's positive role in this high-profile case, and rising inflation -- which the average Bulgarian attributes, at least in part, to EU accession -- there has been little else to impress Bulgarians about EU membership. Despite its sterling economic record (GDP growth of at least five percent for the past seven years), the country is still the poorest in the EU. Many Bulgarians still sense their country has second tier EU status, and view the EU's multi-headed agenda as distant and alien to everyday priorities. Bulgaria has not yet begun to tap into EU funds, corruption remains a serious concern, and social sectors such as health and education remain in dire need of structural reform.

¶2. (C) As political parties begin to realign ahead of scheduled 2009 general elections, the Socialist-led government will likely steer clear of controversial foreign policy matters and focus on achieving tangible improvement in living standards. When Bulgaria does look outward, there will be pressure to look east to Russia, especially as Moscow exerts energy muscle, as much as westward to Brussels and Washington. The United States remains the lodestar for Bulgaria, which is committed to a transatlantic course; Sofia will continue its Euro-Atlantic integration, but it will surely encounter bumps and twists. As we advocate our agenda, we can help smooth out Bulgaria's path and accelerate its progress through senior visits and constant attentiveness. End Summary.

¶3. (C) Successive post-1997 Bulgarian governments had put NATO and EU membership at the top of national priorities. Following NATO entry in 2004 and a 2005 change of government, the Bulgarian Socialist Party (BSP)-led three party coalition took up and drove home EU membership in 2007. For a country that had suffered near economic collapse in 1997, the successful double run in the space of a decade was noteworthy. Predictably, expectations about EU membership have run ahead of reality. And with the government's major accomplishments in hand, it lacks a grand overarching goal to motivate the public. PM Stanishev is doggedly pursuing reforms to improve public services and raise wages and purchasing power, but the public has largely discounted the (for modern Bulgaria) unprecedented material prosperity. Instead, the government seems to lack steam, and the public lacks confidence in the political class.

ECONOMY PERFORMS WELL BUT INFLATION ERODES GAINS

14. (C) Bulgaria's economy continued to perform well in 2007.

GDP growth reached six percent, unemployment fell to an all time low of 6.6 percent, and foreign investors, buoyed by EU membership, showed sustained confidence in Bulgaria's economic fundamentals. By November, analysts began to predict the Bulgarian economy was overheating -- inflation reached 12.6 percent year-on-year in November and the current account deficit topped 20 percent of GDP by year's end. Growing inflation moved eventual eurozone membership further out of reach and took a bite out of the gains the average Bulgarian expected to experience from the first year of EU membership. At the same time, due to a combination of Brussels' cumbersome bureaucracy and Bulgaria's low absorption capacity, Bulgaria barely began to tap into the eagerly anticipated EU funds in 2007. By year's end, 79 percent of Bulgarians still favored Bulgaria's EU accession, but 52 percent were skeptical of the benefits Bulgaria actually received from such membership. Worse, widening income disparities (geographically, sectorally, and by age cohorts) feed insecurity and vulnerability among those least able to cope with the dramatic economic changes. Not unnaturally, it leads to two consequences: soft to plummeting support for (or outright antagonism to) coalition partners; and an inward focus by the public and government on domestic issues.

RULE OF LAW: BULGARIA'S ACHILLES HEAL

15. (C) Corruption remained high in public consciousness, but government and public action were tepid and results therefore weak, despite continued pressure from the United States and EU for more vigorous and effective measures. Last year did not yield a single, high-profile organized crime or

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corruption-related conviction. Instead, in spring 2007 Bulgaria experienced its most far-reaching corruption scandal in years, involving top magistrates and government officials.

As a result, the shady Minister of Economy and Energy and the Chief of the National Investigation Service lost their jobs, only to land other influential positions in government.

Organized crime groups, already operating openly in Bulgaria before EU membership, expanded their presence in the legitimate economy in 2007, making it more difficult to trace the origins of their wealth. There were at least ten contract killings in 2007, with no significant investigative progress. Incremental forward movement (blocking a prostitution bill, preventing a lowered tax rate for casinos, tackling duty free shops that are money laundering machines) was made through vigorous Embassy engagement. But there were few government, public, or NGO initiatives that on their own achieved significant breakthroughs. Continued external encouragement will remain necessary to build political will, public awareness, and institutional capacity to break a culture of impunity for the powerful and well-connected.

POLITICS: UNLIKELY COALITION REMAINS INTACT

16. (C) Bulgaria remained politically stable during its freshman year in the EU, and certainly does not have the same scale of political turbulence that other East European states experienced soon after EU entry. The complex political and business interests that hold together the three coalition partners (the Socialists, ex-PM Simeon Saxe-Coburg's party, and the ethnic-Turkish party) proved stronger than their recurring conflicts. The past year heralded the emergence of a new force on the domestic political scene -- the populist party of Sofia Mayor Boiko Borissov, which, with the traditional center-right in disarray, quickly became the main opposition voice. Undoubtedly Bulgaria's most charismatic politician, Borissov comes with baggage which includes at least superficial ties to 1990,s organized crime leaders. Borissov's questionable past has not marred his popularity, and his personality-based party, which he portrays as Bulgaria's "new center-right," edged out the Socialists in

last year's EU Parliamentary and local elections.

¶7. (C) Borissov's successful political debut does not pose a serious threat to the Socialist-led coalition at this point, but its rise has triggered a process of political realignment of the center-right, as parties begin to reposition themselves ahead of general elections scheduled for mid-2009.

The traditional centrist and center-right parties have slid in the polls to near irrelevance; if they don't remake themselves through massive leadership and organizational change (possible but unlikely) they face either oblivion or being swallowed by Borissov's party.

¶8. (C) The ruling Socialists are struggling to overcome internal woes; one third of the party is wedded to the discredited pre-1990 past, and a sizable cohort is elderly and unmotivated. PM Stanishev is intently but slowly working to transform the party into a modern social democratic force.

He is obliged to parry attacks from the party's old guard, who seek to regain influence lost to reformist technocrats. This is another grinding realignment. Any serious threat to the coalition is likely to come from within BSP's own ranks or from growing tension over social issues rather than from the opposition. Although early elections are not entirely ruled out, odds-makers believe the PM will keep his seat until the end of his term in 2009. President Georgi Parvanov, whose exposure as a communist-era State Security Agent in 2007 did not affect his political standing, will continue to play an important role in domestic and foreign policy matters despite the PM's growing emancipation from his former mentor. (Note: Septel provides an in-depth look into Bulgaria's political landscape.)

SOCIAL ISSUES TO DOMINATE BULGARIA'S SOPHOMORE YEAR IN THE EU

¶9. (C) Social issues dominated the headlines in 2007, forcing the government to vow that its major goal for 2008 will be making more Bulgarians feel the positive effects of the country's economic development. Despite its impressive economic record, Bulgaria remains the poorest EU member state and the vast majority of citizens are disillusioned by the lack of improvement in their living standards. High on the government agenda will be reforms in education and health care -- two sectors plagued by protests and strikes in 2007. Striking teachers closed the entire Bulgarian school system for more than a month in the fall. Although the government resisted pressure for drastic salary hikes (the teachers wanted their salaries doubled), the strike -- the longest in Bulgaria's modern history -- served as a wake up call for

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badly needed public sector structural reform.

¶10. (C) The government allocated a considerable increase in spending for the education and health sectors in the 2008 budget, and the ruling coalition now has a limited window to introduce meaningful structural reforms in these and other public sectors to avoid social tensions similar to -- or worse than -- those seen in 2007. As 2009 general elections approach, the government will also likely focus on the plight of pensioners, who make up the bulk of the ruling Socialist Party electoral base. Focusing on such domestic issues, the Socialist-led government will shy away from difficult decisions on politically sensitive issues such as Bulgaria's involvement in Afghanistan and Iraq, which are widely unpopular, particularly with the Socialist base.

¶11. (C) Comment: With EU membership turning out not to be the panacea hoped for by the average citizen, in 2008 Bulgarians will increasingly demand their government focus on pressing domestic issues - wages, inflation, health care, education and pensions. With general elections on the horizon, and an emergent political force organizing a new center-right opposition, the Socialist-led coalition will be all too eager to avoid controversial foreign policy topics and focus on domestic concerns. When Bulgaria does look

outward in 2008, it will be pressed to look east, to Russia. Moscow's near monopoly position as energy supplier grates on Bulgarians, creating its own counter-force to Russian influence. But the scale of Russian business ventures here, and the number of Russian tourists, plus historical nostalgia will, nonetheless, exert a pull on Sofia. The EU decision-making process and EU funds will also pull, but in an EU-centric direction. The Bulgarians still look to us for leadership and advice, and they are determined to be steadfast allies. Our agenda -- keeping them engaged in Iraq and Afghanistan, encouraging them to stand steadfast in the face of Russian pressure on everything from Kosovo to pipelines, and making progress on the rule of law -- has deep support from the policy cognoscenti. Still, the government's preoccupation with domestic matters -- and electoral calculations -- will likely work against consistent foreign policy decisiveness. Because Sofia does want to be seen as a reliable and predictable partner, we will get decisions to go our way. A steady diet of high-level visits and interest from Washington, intensified Embassy and reinvigorated public outreach will keep the Bulgarians on the transatlantic trajectory. End Comment.

Karagiannis